

A Safe Place For My Money

Lesson 6

Teller: How much are you depositing today?

Ms. Havecents: \$2,500; here is my deposit slip and the check from my company.

Teller: Here is your receipt; you'll be happy to know that your money is earning 3.5% interest each year. Thank you for banking with us.

Mr. Needbucks goes to the Loan Officer

Mr. Needbucks: Hello; I want to buy a used car for my daughter to use for work this summer. I plan to take half of what I need from my savings, but would like to borrow the other half.

Loan Officer: How much do you need?

Mr. Needbucks: \$2,000 is the amount I'd like to borrow.

Loan Officer: That shouldn't be any problem; you have been a good customer for many years, and I know you will pay the money back. Our current interest rate on used car loans is 7.75%; does that sound all right to you?

Mr. Needbucks: Yes, I've looked at several financial institutions, and your rate is the best around.

Loan Officer: Good, I'll get your loan papers ready for you to sign.

Debrief:

1. What interest rate will the financial institution pay Ms. Havecents? (3.5%) How many cents is this for each dollar? ($3\frac{1}{2}$ cents)
2. What interest rate will Mr. Needbucks be paying to the financial institution? (7.75%) How many cents is this for each dollar? ($7\frac{3}{4}$ cents)
3. How much difference is there? (4.25%) Cents per dollar? ($4\frac{1}{4}$ cents)
4. How much will the financial institution make on each dollar of this loan? ($4\frac{1}{4}$ cents)

Tell the students:

The money financial institutions make from loans helps pay their expenses and earn them a profit - which is the incentive (*reward*) for doing business.

Loans are serious obligations. Financial institutions are careful to make sure the people to whom they give loans are going to be able to pay them back. After all, it is your (*or other customers*) money they are using to make those loans!

Financial institutions do not lend out all the money people deposit. They are required by law to keep a certain amount of money on hand for their depositors' needs. After all, a financial institution doesn't know when you or another customer might want to use some of the money they've deposited. So, they must have money ready for people who want to make a withdrawal of their funds.

Types of Accounts

The accounts you have through our Bank At School program are savings accounts. Savings accounts are for money you don't plan to use for some time. That is why financial institutions can loan out some of that money, and why they pay you interest for leaving your money in the financial institution.

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But, savings accounts aren't the only type of account financial institutions offer. Sometimes people want to keep their money in a safe place, but also want to be able to use some on a moment's notice. Financial institutions offer checking accounts so customers are able to access their money without carrying a lot around and without having to go to the financial institution to make a withdrawal from savings.

Have you ever gone to the grocery store with an adult who paid for their groceries by writing a check? A check is a special paper form (*with your name, account number and other information*) that tells your financial institution to take the amount of money you write on the check out of your checking account and send it to the account of the store or person to whom you write the check. So, if the groceries cost \$20.65, the customer will write that amount on the check and the name of the store, and sign his/her name. The customer's financial institution will take \$20.65 out of his/her checking account and send \$20.65 to the store's financial institution account.

Checking accounts are very convenient, letting people use their money easily while keeping it in a safe place. It is important, however, that you always are certain you only write a check if you have that much or more money in your checking account. Just like with savings, it is important you keep good records.

Today, some financial institutions provide bankcards or check cards that look like a credit card. However, when you use it to make a purchase, the amount of the purchase is deducted directly from your checking account. It is just like writing a check, but the order to pay is issued electronically rather than by a piece of paper. A check card/bankcard is very convenient, but you must remember to keep careful records of each purchase made this way, just as you do when writing a check.

Summary Activities:

1. Have students fill out sample deposit slips for savings accounts if they have not already done that for their own account.
2. Provide students with make-believe checks and have them write checks for make-believe purchases (*role play purchasing scenes*).
3. Review the primary role of financial institutions (collect money from depositors and make loans to borrowers) and types of accounts (*savings and checking*).

Additional Resources

[The Story of Checks](#), Federal Reserve Bank of New York

[The Story of Banks](#), Federal Reserve Bank of New York